

2025 Nearshoring in apparel: the pendulum is swinging back



Recent tariffs, especially on Asia, could finally push Central America to break out beyond its ~15% share of U.S. apparel imports



In the early 2000's, Central America was the largest apparel exporter to the U.S., driven in part by U.S. foreign policy favoring Western Hemisphere production. With China's accession to the WTO in 2001, and later the elimination of the Multi-Fibre Arrangement in 2005 (which effectively removed all quotas on developing countries), the road was paved for China to overtake Central America as the global powerhouse of apparel production. Several key factors contributed to China's rise:

- Initially, it was the **low labor costs** in China that drove many brands and retailers to shift their volumes. In addition, China's industrial policy of offering government subsidies, meant that Chinese apparel companies could aggressively take on volumes even if they were operating at a loss.
- Over time, China was able to maintain its leading position by driving efficiencies through **vertical integration**, often co-locating raw material production with cut and sew operations. This meant driving productivity improvements to counter rising labor costs in the Mainland.

While China dominated for decades, its share of U.S. apparel imports began to decline around 2018 as tariffs were introduced, and geopolitical tensions escalated. In 2020-21, China's strict COVID policy contributed to global supply-chain disruptions, which led many brands and retailers to look for ways to further reduce their exposure. This opened the door for Southeast Asian countries (e.g., Vietnam, Bangladesh) to gain share. As a result, China's share of U.S. apparel imports is now just 15%. Adding to the shift, 2025's tariffs have reignited interest in nearshoring, and our analysis suggests the economics could be attractive.

Why has nearshoring lagged?

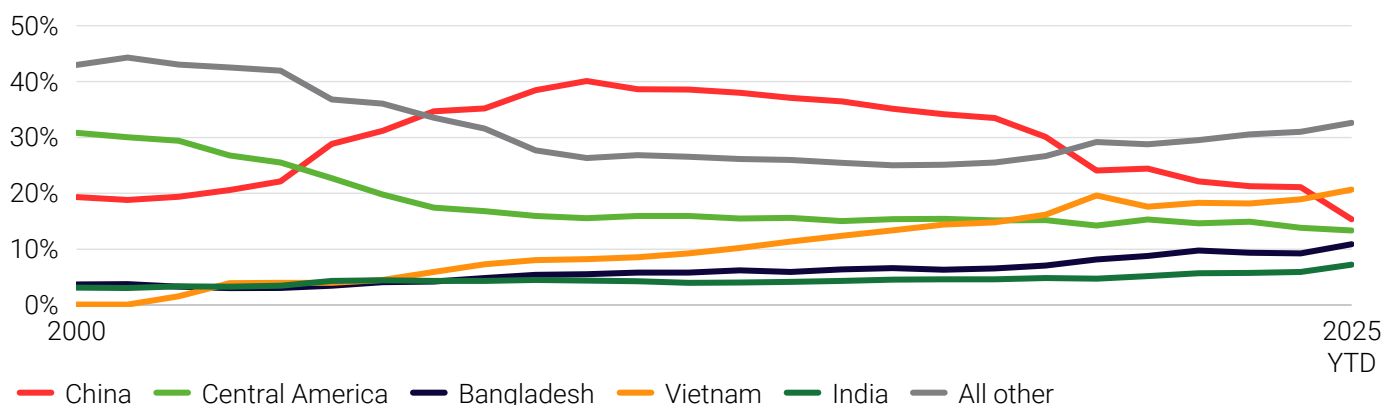
Despite years of headlines, nearshoring has struggled to gain traction. Since 2010, Central America has been accounting for a steady ~15% share of U.S. apparel imports, with Mexico being the primary contributor.

The reasons are clear:

- Labor costs:** Our estimate of Mexico's average annual labor cost for a garment factory worker is US\$13.6K, nearly double Vietnam's \$7.2K and more than five times Bangladesh's \$2.6K.
- Infrastructure gaps:** Central America lacks the infrastructure for raw material production, especially for polyester manufacturing, which means it needs to be imported from Asia.
- Freight costs:** Land freight within the Americas can be more expensive than ocean freight from Asia due to small shipment sizes.

The recently introduced U.S. tariffs on imports from Asian countries are shifting the calculus, as we demonstrate through a case study of a basic tee.

U.S. apparel import share has shifted over time, with Central America poised to gain



A t-shirt case study: Tariffs are shifting the economics

To test the viability of nearshoring, AlixPartners developed a cost model using a 60/40 cotton/polyester men's t-shirt. The model compares traditional Asia-based sourcing with nearshoring scenarios. We also included scenarios leveraging recycled PET given the rising availability and demand for such materials, particularly in the Western Hemisphere.

Cost model structure

Our model maps the full apparel value chain—from PET fiber production through spinning, knitting, dyeing, cut and sew, logistics, tariffs, and final delivery. This comprehensive approach allows for scenario-based comparisons that reflect real-world sourcing decisions. It accounts for:



Raw material costs
(virgin vs. recycled PET)



Labor rates
by country



Energy and
depreciation



Logistics,
duties and
tariffs



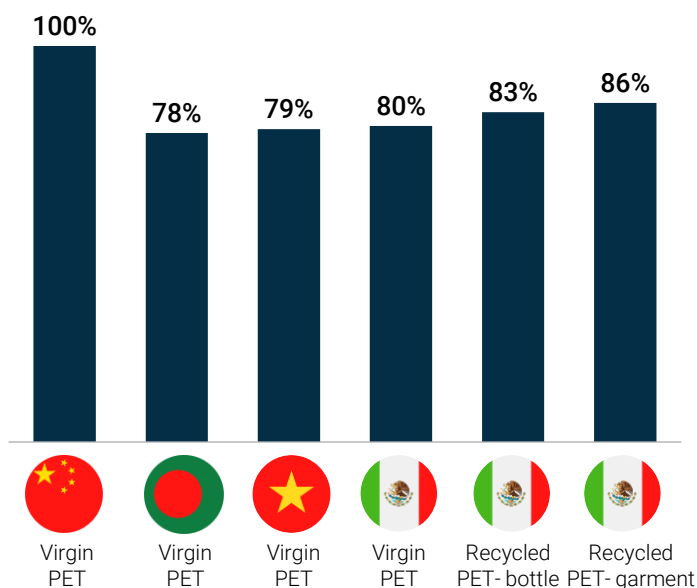
Markup
assumptions
across each
step



Productivity
variance by
country

Latest tariff-adjusted cost index

Using tariff rates as of August 1, 2025, the estimated landed cost index for our baseline t-shirt across multiple scenarios is:



Source: AlixPartners Analysis

Note: Mexico costs assume USMCA compliance

Key takeaways

- **Tariff advantage:**
Mexico benefits from USMCA, with **0% duties and tariffs**, compared to **54% for China** and **36.5% for Vietnam/Bangladesh**.
- **Cost positioning:**
Mexico's recycled polyester scenarios are **~15% cheaper than China**, and only **2–8% more expensive than Vietnam and Bangladesh**.

Speed-to-market advantage

Nearshoring offers strategic advantages that can further reduce costs by 1-2%:

- Lead time reduction: Nearshoring cuts lead time by **3–6 weeks**, improving forecast accuracy and reducing inventory costs. Shorter lead times can reduce markdowns and clearance rates, which should improve gross margins.
- Capital efficiency: Faster turns reduce working capital needs, driving further savings.

When these benefits are added, the Mexico nearshoring scenario **becomes more attractive than Vietnam and Bangladesh**. Specifically:

- Mexico (virgin polyester) becomes roughly equal to Vietnam and Bangladesh.
- Recycled options are still slightly more expensive than Vietnam and Bangladesh but only by ~5%.

The case for recycled materials in the nearshoring scenario

One of the most compelling arguments for nearshoring is sustainability—especially when using recycled polyester. Unlike virgin PET, which is derived from fossil fuels and is largely produced in China, recycled materials can be sourced from the Western Hemisphere. This shift:



Reduces lead times by eliminating trans-Pacific shipping of raw materials.



Lowers carbon footprint by shortening the supply chain and reducing emissions from freight and manufacturing.



Supports circularity by repurposing post-consumer waste like PET bottles and discarded garments into apparel fibers.

Retailers also benefit from consumer demand and willingness to pay more for sustainable products. Industry benchmarks suggest that recycled polyester garments can command a **10–15% price premium** over conventional alternatives. For example:



A standard polyester t-shirt with a landed cost of \$4 might retail for \$12.



A recycled polyester version could retail for \$13.20–\$13.80, yielding an additional \$1.20–\$1.80 in margin—more than enough to offset the higher raw material cost.





Sensitivity to tariffs: The swing factor in nearshoring economics

Our cost model reveals that **tariffs are a sensitive variable** in determining the competitiveness of nearshoring versus offshore sourcing. This is especially evident when comparing the impact of tariffs on landed costs across scenarios.

Duties & tariffs impact breakdown

SCENARIO	DUTY RATE	TARIFF RATE	% OF LANDED COST
China base case	16.5%	37.5%	33%
Vietnam scenario	16.5%	20.0%	25%
Bangladesh scenario	16.5%	20.0%	25%
Mexico (virgin poly)	0.0% ¹	0.0%	0%
Mexico (recycled poly - bottle)	0.0% ¹	0.0%	0%
Mexico (recycled poly - respun)	0.0% ¹	0.0%	0%

1. Assuming USMCA compliance

Source: Whitehouse.gov, US Customs and Border Protection

Why it matters

- China's landed cost is heavily driven by duties and tariffs, which account for a third of the total.
- Vietnam and Bangladesh, while more competitive, still carry significant duty and tariff burdens.
- Mexico's scenarios, by contrast, benefit today from USMCA compliance, resulting in no duties and tariffs.

Large apparel suppliers have already made these calculations: Hansae has been expanding its capacity in Central America and most recently announced a planned expansion of its Nicaragua plant by 60 sewing lines in 2026. In May 2025, following the April tariff announcement, Jay Apparel announced a strategic expansion in Central America. Also in May, Intradeco announced a partnership with Recover™, a producer of sustainable recycled cotton fiber, and Cathay Home has invested in the "largest home textile manufacturing operation in the Americas," set to open in 2026. With tariffs staying where they are, we're expecting these factories will fill capacity lost from China, and that more will come.

Keeping a close watch on the evolving tariff landscape is critical when assessing whether near-shoring is right for you, as several factors are at play:

- The latest round of tariffs are currently awaiting Supreme Court decision.
- USMCA is up for renegotiation in 2026 – new restrictions could make USMCA compliance more difficult.
- Cost structures for Asian and Central America countries could change, driven by currency movements, increases in minimum wage and other cost factors.

The question is: How should retailers and brands react to this emerging opportunity?



Reassessing the viability of nearshoring

We believe now is the time for retailers and brands to re-assess opportunities to expand nearshoring. This includes:

- Developing a flexible cost model that can be used to assess total landed cost under various tariff and country scenarios.
- Identifying and prioritizing categories where nearshoring could make economic sense under various scenarios.
- Exploring partnerships with existing and new suppliers in the Western Hemisphere who are expanding production capacity and adding capabilities.
- Engaging with players focused on sustainable manufacturing, especially those leveraging recycled materials to produce garments economically and responsibly.

The economics, infrastructure, and consumer sentiment are aligning—and the window to act is open.

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